

Preparing for Retirement



ERS May 2007

Termination of Service Before Retirement Eligibility

If I am ineligible for retirement, what options do I have with regards to my retirement account?

Once you terminate employment prior to retirement eligibility, you have three options:

1. If you are vested (have at least 10 years of creditable service), retirement contributions may be left in the system until age 60 (age 52 for State Police). You may apply for service retirement to be effective the first of the month after reaching age 60 (52 for State Police).
2. With less than 10 years of service (not vested), you may leave contributions in the system for up to five years. If you have not returned to employment as a participating member, the account will be terminated and contributions plus any refundable accrued interest will be payable to you.
3. You may withdraw all retirement contributions and refundable interest. Your contributions are only refunded at your request upon termination of employment and application for refund.

Note: An approved leave of absence does not constitute termination of employment.

If you think there is a chance you will be rehired or go to work for another participating agency, it is **strongly** recommended to leave your retirement contributions in your retirement account.

If you do withdraw your contributions and return to work with a participating agency, you may restore your previously canceled service credit after completing two years of contributing service. The cost to purchase the withdrawn service is the amount previously withdrawn plus 8% interest compounded from the date of withdrawal to the date of payment.

How do I go about requesting a refund?

To request a refund, contact the ERS or your payroll/personnel officer and request a RSA-7, NOTICE OF FINAL DEPOSIT AND REQUEST FOR REFUND form. This form is also available on our Web site at www.rsa.state.al.us. Instructions for completing the form are located on the reverse side of the form. You must read the SPECIAL TAX NOTICE REGARDING PLAN PAYMENTS which accompanies the RSA-7 form. The taxable portion of the refund is subject to federal income tax withholding at the rate of 20% unless the taxable amount of the refund is transferred directly (rolled-over) from the RSA to the trustee of an Individual Retirement Account (IRA), Annuity, or Qualified Retirement Plan.

If you elect to receive the refund directly, you will be refunded 80% of the taxable amount of the retirement contributions and refundable interest, if any. The taxable portion of the refund may also be subject to a 10% additional tax if the member is less than 59 1/2 years old. No portion of the refund is subject to state of Alabama income tax.

In January following the calendar year in which a taxable refund is made, a 1099-R will be issued to the member who has received the refund, regardless of whether the individual rolled-over the refund to a qualified plan within 60 days of the date of withdrawal.

May I receive a partial refund and how much interest will I receive?

There are no partial refunds; all contributions are refunded. Interest on the account is only refunded if you have at least three years of service. The employee is not entitled to the total interest credited to the account.

Table of Refunds

Years of Membership Service	Amount of Interest Refunded	Contributions Refunded
Less than 3 years	None	All
3 years, but less than 16 years	50%	All
16 years, but less than 21 years	60%	All
21 years, but less than 26 years	70%	All
26 Years or more	80%	All

By law, interest is credited on the previous year's average balance at the rate of four percent per annum. Refunds may be subject to a federal tax penalty.

What are the consequences of having my retirement account refunded to me?

Upon withdrawal, all service credit established with the ERS is canceled. For vested members, the right to lifetime monthly retirement benefits at age 60 (52 for State Police) is forfeited.

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To have your questions answered in "Preparing for Retirement", please address them to:

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